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ECONOMIC COMMISSION FOR AFRICA
ASSOCIATION OF AFRICAN CENTRAL BANKS

REPORT OF THE SEVENTH MEETING OF THE EAST AFRICAN SUBREGIONAL COMMITTEE OF THE ASSOCIATION OF AFRICAN CENTRAL BANKS MOGADISCIO, 21 and 22 JULY 1975

Attendance

1. The meeting was attended by representatives of the Central Banks of the following States : Burundi, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Somalia, Swaziland, Uganda, the United Republic of Tanzania and Zambia.

Opening of the meeting

2. The Governor of the Central Bank of Somalia opened the meeting by welcoming all participants to the seventh meeting of the subregion and expressed the wish that discussions would be as fruitful as in previous meetings and that they would result in valuable suggestions and ideas for the solution of the many problems which member countries faced. He announced that the previous Chairman, the Governor of the Bank of Uganda, had apologized for being unable to attend the meeting owing to unforeseen circumstances. Similarly, the representative of ECA had informed him that he was unable to attend.

Adoption of the agenda

3. The provisional agenda was adopted with some modifications: Item 6, "Communication from the secretariat" was deleted since the ECA representative was not present at the meeting and two new items were added: "African Centre for Monetary Studies" and "Date and place of the next meeting". The items were reordered to reflect those changes and the desire of participant to discuss first important topics of common interest.

Adoption of the minutes of the fifth meeting held at Kampala, Uganda on 25 July 1974

4. The minutes of the fifth meeting were adopted with the following amendments:

- On the second page, third paragraph, the word "disappointment" was changed to "regret"; on page 3, the word "second" in the fifth sentence was changed to "fourth"; on page 7 the word "central" in the third paragraph was changed to "official".

Matters arising out of the minutes

5. There were no matters arising from the minutes.

Latest developments in the international monetary situation

6. After a brief introduction by the Chairman and the Governor for Swaziland, the meeting agreed to discuss the issue in the following order:

(a) the role of gold;

(b) adjustment process;

(c) allocation of SDR

(d) evolution of the Interim Committee and possible amendments to the IMF Articles of Agreement.

(a) The role of gold

7. The meeting noted that most countries members of IMF had agreed to the demonitization of gold although there still existed disagreement on how to dispose of it. Mention was made of the three proposals by the United States of America, France and the Managing Director of the Fund respectively. The United States proposal that no gold should be distributed to the member countries aimed at restoring the dollar as the principal reserve asset whereas the French proposal favoured gold to play a leading role in the international monetary settlements and wanted the IMF gold holding to be distributed among the member countries at the old official price of $35 an ounce. The IMF Managing Director's proposal sought a compromise solution between the United States and French proposals. It sought to dispose of about one-third of the gold held by the one-sixth would be restored directly to members and one-sixth would be sold on the open market. The profit realized from the sale of the latter portion would be credited to a Trust Fund for distribution to developing countries.

8. Participants expressed their concern about the major countries increasing their gold holdings and giving themselves increased liquidity to finance oil deficits while no action was to be taken in favour of the developing countries and reiterated the view that they did not like any currency to become a reserve asset, stressing their confidence in the SDR as the principal reserve asset in the reformed world monetary system.

9. After a lengthy discussion, the meeting favoured the transfer of all gold holdings of the member countries to the IMF in exchange for SDRs at the price at which gold was valued in the books of the Fund. Subsequently, the Fund would gradually release the gold for sale on the free market and credit the resulting profit to the Trust Fund which would be used for financing investments in the developing countries. However, as that proposal was unlikely to succeed, the meeting accepted the IMF proposal as an interim solution.

(b) Adjustment process

10. The meeting noted the progress achieved by the Committee of Twenty, following the collapse of the Bretton Woods exchange rate regime and the temporary introduction of the floating exchange rate mechanism. The proposal of the Committee of Twenty for a fixed but adjustable exchange rate system was welcomed as it would ensure a better working adjustment process. To that end, members expressed their support for IMF surveillance, international consultation and the use of objective indicators. It was emphasized that the special circumstances of the developing countries should be taken into consideration in assessing the need for adjustment and accepted in principle that measures for adjustment might include both exchange rates and domestic policies and pointed out the adverse effects that an automatic process of adjustment might have on the developing countries' economies.

11. However, participants felt that the present composition of the basket of 16 currencies selected for the determination of the SDR value should be reviewed to make it more representative by including as many other currencies as possible. The meeting therefore recommended the countries members of the subregion to consider seriously the possibility of linking their respective currencies to the SDR as had been done by Malawi.

(c) Allocation of SDRs

12. Participants favoured the linking of the SDR to development finance and noted with disappointment that was resisted by some major countries. They emphasized the need that the present sharing of the increase in quotas should be revised in order to give developing countries a higher share of both quotas and voting power. The meeting felt that the interest of the developing countries would be safeguarded if the principle of a four-fifths majority for all important decisions of the Fund could be maintained but in view of possible resistance to that approach on the part of the United States, the developing countries could opt for an 85 per cent majority as a compromise to get the United States to accept the principle of doubling the quotas of oil-producing countries and maintaining those of the other developing countries and also of shortening the quota review period from five years as at present to two or three years. They could not accept a proportionally established sharing of the increase in quotas which practically reduced their voting power and their ability to make use of the additional Fund resources and insisted that any new creation of SDR should be linked to quotas review.

13. The meeting supported the continuation of the oil facility for 1976, to be made available to member countries under the same conditions as in 1974 and subsidy account should be put into operation with immediate effect..

(d) Evolution of the Interim Committee of the IMF Board of Governors

14. The Committee of Twenty had been superseded in 1974 by the Interim Committee with the same membership to carry out its study on the reforms of the international monetary system.

15. The meeting expressed its agreement on the proposed transformation of the Interim Committee into a permanent Council within IMF with both advisory and executive powers, provided that all outstanding issues of the reform were solved first. On the question of African representation in the Council, participants agreed that the African countries should be guaranteed two seats either by the deliberate creation of a twenty-first seat or entrenchment in the Articles of Agreement accordingly. They therefore stressed the necessity to achieve a united front by reorganizing and uniting the African group and, in that respect, the meeting appreciated the action taken by the Latin American countries whose voting power had been guaranteed and incorporated in the Articles of Agreement.

16. In the field of liquidity shortages, the transfer of financial means and the recycling of surplus funds, members felt that direct contacts with individual countries having surplus funds would be feasible in order to obtain funds in the form of deposits to be placed with central banks of deficit African countries, given of course, the existance of a favourable political atmosphere among the countries concerned.

17. The meeting noted the problems connected with the utilization of IMF credit facilities and expressed the opinion that in future the Fund should take into consideration the particular situation of the developing countries by easing the conditions under which it extended credit facilities so that they would not interfere unduly in the economic policies of those countries.

18. Participants expressed the desire to see increased co-operation among the central banks of the subregion and efforts made towards achieving a payments union. They appreciated and decided to follow the example set by the West African subregion which had established a Payments Union within the recently announced West African Economic Community.

Foreign trade problems and intra-African trade co-operation

19. The meeting discussed the recent developments in world trade and the consequent upward trend of the prices of manufactured goods, oil and foodstuffs from which the developing countries had suffered in particular. They had indicated that the situation, which had led to a worsening of the terms of trade of the developing countries and an adverse balance-of-payments position, called for an intensification in economic and trade links and co-ordination of efforts in order gradually to reduce their dependence on the developed countries.

20. Participants acknowledged that there was room to increase trade among the countries of the subregion and that central banks should play a very positive role in enhancing trade flows. However, it was recognized that any such step should be preceded by talks at ministerial level among the member States and it was stressed that the central banks should encourage the opening of reciprocal accounts and the extension of credit facilities to each other whenever the opportunity to do so arose.

Reports on economic developments in countries member of the subregion

21. Participants reported on the recent developments of the economies in their respective countries. Those reports will be reproduced in due course in a separate document.

African centre for monetary studies

22. The meeting heard comments made by the representatives of the United Republic of Tanzania and Malawi who had participated in the work of the Study Group entrusted with the task of preparing a document on the establishment of the Centre for Monetary Studies. Details regarding the Constitution, staffing and organization, contributions and location were briefly discussed and agreed upon.

23. The meeting decided to take a common stand regarding the choice of the location of the Centre and, after an exchange of views in which the offers of both the United Republic of Tanzania and Ethiopia to host the Centre were considered, the general consensus was in favour of the Centre being established at Arusha, United Republic of Tanzania. It was recommended that all participants should support that stand during the forthcoming Kinshasa meeting of the Association of African Central Banks.

Date and place of the next meeting

24. Members accepted the invitations extended by the Governors from Rwanda and Swaziland to host the next meetings of the subregion in 1976 and 1977 respectively, in accordance with the agreed principle of rotation among members in inverse alphabetical order.

Any other business

25. At the request of the representatives of Zambia, the meeting agreed to endorse, at the forthcoming meeting at Kinshasa, Zaire, from 18 to 22 August 1975, the invitation of Zambia to host the 1977 regular meeting of the Association of African Central Banks.

Closure of the meeting

26. The Governor of the Central Bank of Somalia concluded the meeting by thanking the Governors and participants for their valuable contributions to the discussions which had made the meeting successful and wished them a safe return. He apologized for any inconvenience caused to them during their stay in Mogadishu.

27. Finally, participants adopted a vote of thanks to the Governor and the staff of the Central Bank of Somalia as well as the Government and people of the Somali Democratic Republic for the arrangements made for the meeting and for the hospitality accorded to them.

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